ALBERTA OPPORTUNITY COMPANY

Turning Opportunity into Enterprise

1996/97 Annual Report

An alternate source
of business financing
since 1972.

The purpose of Alberta Opportunity Company is to provide financial assistance and guidance for the development of Alberta business.

Priority is given to smaller businesses in rural communities which, although viable, are not able to obtain financing from conventional institutions. Priority is also given to Alberta-owned businesses which will create jobs, are introducing improvements in productivity or technology, or have export or tourism potential.

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Report from the Directors

The Year in Review

Results for the year ended March 31, 1997 reflect the continued solid progress that has been made in improving the financial strength of the company. This report sees the completion of three consecutive years of significant reductions in the level of financial support required from government for company operations. In addition, retained earnings have increased 50% in 1997 to $16.1 million. Our campaign of organizational restructuring, and re-engineering of processes, enabled us to move steadily forward in our program to reduce the cost of our operations while continuing to fulfill our responsibilities to Alberta's small business community as defined in our mandate.

Financial Objectives Achieved

Key performance indicators set out in our 1997 business plan, and the actual results achieved, are as follows:

Performance Indicators	Goal	Actual
New Loans/Guarantees	$34.3 million	$35.6 million
Job Creation/Preservation	2,400	2,371
Export Financing	$3.5 million	$2.6 million
Operating Grant	$7.4 million	$7.4 million
Net Cost to Government	$7.4 million	$2.1 million

These results are strong evidence of the continued demand for a source of alternate financing for small business entrepreneurs. While the major areas of financing activity shift somewhat depending upon the strength of the economy, it is apparent that the overall need for an alternative to risk-averse commercial lenders remains relatively constant in the long term.

Corporate Re-Alignment

During the final quarter of fiscal 1997 we implemented a corporate reorganization and voluntary staff reduction plan designed to further reduce administrative burden, shorten lines of communication in our approval process, and "flatten" the management structure.

This has already had a positive impact on processing times. The impact of reduced staffing levels will be reflected in reduced operating costs in future financial statements.

1998 and Beyond

The strength of Alberta's economy and the vitality of the small business sector as we close in on the next century is a source of both opportunity and challenge. We believe that the very significant organizational restructuring and the streamlining of our processes that has been put in place over the past three years has positioned us well to continue to fulfill the requirements of our mandate, and to do so at similar cost levels to those achieved in 1997.

Our continuing goal is to identify Alberta entrepreneurs and industries which have good management and sound business plans, but fall outside the equity or security parameters of conventional lenders. The rapid changes taking place in our Province's vibrant economy dictate that we must remain flexible and proactive in order to meet the needs of our small business market. We look forward with enthusiasm to meeting this challenge.

R Bell

Chair

President and CEO

Management's Discussion & Analysis

The detailed discussion and analysis which follows is provided to assist readers in their assessment and understanding of the results of operations and financial position of AOC. This discussion and analysis should be read in conjunction with the audited Financial Statements and supporting notes reported on pages 8 to 21 of this report. Dollar amounts presented in the tables are in thousands.

Overview of 1997 Results

In 1997 AOC continued its efforts to become more efficient and effective through a program of re-engineering and cost control initiatives. These initiatives included improvements in computer systems technology, the streamlining of both loan processes and the organizational structure to speed decision-making and improve operating performance, and a voluntary separation plan to adjust the size of the workforce.

In 1997, AOC approved 305 net loans, bank guarantees and export guarantees which totalled $38.2 million and surpassed 1996 results by $8.1 million. Net operating income before debt reduction grant increased to $5.3 million in 1997 from $4.7 million in 1996, an increase of 13.3 percent. The primary reasons include a stronger economy, low market interest rates, staff reductions and operational cost controls.

Our small business loan program remains the highest priority at AOC, and demand for small business financing is expected to continue and remain strong in 1998. The benefits of reorganizing, along with positive results from cost reduction initiatives and increased lending activity in the last quarter of 1997, leads AOC to anticipate further operational improvements in 1998.

Results of Operations

Revenue

AOC's revenue decreased by 14.5 percent to $15.7 million in 1997. This decrease is shown by revenue category in the following table:

	1997	1996	% Change
Interest revenue	$ 7,815	$ 8,716	(10.3)%
Application and processing fees	474	474	0.0 %
Gain on sale of investments	-	147	(100.0)%
Grant from Province of Alberta	7,427	9,051	(17.9)%
	$ 15,716	$ 18,388	(14.5)%

Interest revenue is earned from interest charged on outstanding loans and from cash deposited in the Province of Alberta's Consolidated Cash Investment Trust Fund. In 1997 interest revenue decreased by $0.9 million (10.3 percent). This decrease is attributable to lower market interest rates. Application and processing fees remained constant in 1997 at $0.5 million. Grant from Province of Alberta is required to maintain the financial viability of AOC for providing assistance to small businesses. In 1997 the grant decreased by $1.6 million (17.9 percent) as planned for in AOC's three-year business plan. Plans for the future are to reduce the grant by a further $2.0 million (26.9 percent) by 1999.

Operating expenses

AOC's operating expenses decreased by 24.1 percent to $10.4 million in 1997. Total operating expenses are shown by expense category in the following table:

	1997	1996	% Change
Operations (excluding salaries)	$ 2,367	$ 2,263	4.6 %
Salaries and benefits	3,598	4,140	(13.1)%
Interest expense	4,300	6,324	(32.0)%
Charge for loan losses and losses on realization	122	958	(87.3)%
	$ 10,387	$ 13,685	(24.1)%

Improved business processes and computer technology updating has allowed for a decrease in the number of employees. Total salaries and benefits decreased by $0.5 million (13.1 percent). Staffing costs in 1998 will reflect a further decrease due to reduced staffing levels implemented March 31, 1997 through a voluntary separation offer. In 1997 the total number of employees decreased by twenty-five (30.0 percent). Interest expense decreased by $2.0 million (32.0 percent) due to lower market interest rates on borrowings, repayment of high interest Alberta Heritage Savings Trust Fund debentures, and reduced borrowing requirements due to strong cash flow. The charge for loan losses and losses on realization decreased in 1997 by $0.8 million (87.3 percent) due primarily to improvements in the quality of AOC's loan portfolio resulting from the strength of the economy in Alberta. Despite favourable economic conditions, in 1997 a conservative approach for providing allowances on impaired loans was maintained.

Financing activities

Note and debenture debt was $61.2 million as at March 31, 1997, a reduction of $4.1 million from March 31, 1996. This reduction was achieved with excess cash flow from operations. As per agreement with the Alberta Heritage Savings Trust Fund, the proceeds from early loan prepayments by borrowers were used to make additional debenture payments of $10.5 million. Current financing needs were met by borrowing from the General Revenue Fund at current market rates. As at March 31, 1997 the weighted average interest rate on notes and debentures payable was 6.2 percent compared to 7.2 percent at March 31, 1996. The weighted average interest rate on loans receivable was 9.7 percent as at March 31, 1997 and 10.0 percent as at March 31, 1996. The improvement in the interest rate spread is primarily attributable to decreasing market interest rates.

Risk Management

AOC's framework of risk management includes processes for the evaluation and acceptance of risk within appropriate limits in the areas of credit risk, interest rate risk and operational risk. In addition to the following comments, information on risk management is included in Note 12 to the Financial Statements.

Credit risk is the risk AOC will incur a loss due to the failure of a borrower to meet its loan obligations to AOC. Principles that are applied in the management of credit risk include:

- clear communication to credit officers of lending policies, security requirements and operating procedures;
- competency requirements for all officers whose responsibilities include evaluation of credit risk and delegation of decision-making authority consistent with demonstrated ability;
- disciplined decision-making with loan proposals evaluated by a minimum of two officers. In the case of all larger loans, approval from a committee of senior management or the Board of Directors is required;
- prompt identification, regular monitoring and timely valuation of problem accounts.

Interest rate risk is the risk that net interest revenue will decrease because of an adverse movement in interest rates. This risk is managed by borrowing a mix of short-term and long-term debt through the Province of Alberta at fixed interest rates and terms designed to match the average terms of AOC's loan portfolio while maintaining an appropriate interest spread.

Operational risk is the potential for loss as a result of a breakdown in information or transaction processing or legal compliance systems due to procedural or systems failures, errors, natural disasters or fraudulent activity. Operational risk is managed by a system of internal controls that require segregation of duties, clearly established authorities, appropriately verified recording of transactions, financial and managerial reporting, back-up procedures and insurance coverage.

Future Outlook

AOC continues to concentrate on its core business of providing term loan assistance to viable small businesses unable to obtain financing from conventional lenders. Maintaining tight operational cost controls and effective use of available resources are of utmost importance in order to maintain or increase lending activity levels with reduced grant assistance. The grant from the Province of Alberta will be reduced to $6.7 million in 1998 and to $5.4 million in 1999. Expected future increases in interest rates and more formula lending by conventional lenders will make it increasingly difficult for new, small business entrepreneurs to obtain financial assistance. Demand from entrepreneurs for the services of AOC is expected to remain strong in 1998, with total loan and guarantee assistance targeted at $34.3 million.

Management's Responsibility for Financial Information

The accompanying financial statements of Alberta Opportunity Company and all information in this annual report are the responsibility of the Company's management and have been reviewed and approved by the Board of Directors. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and necessarily include some amounts that are based on informed judgments and best estimates of management. Financial information presented elsewhere in the annual report is consistent with that contained in the financial statements.

In discharging its responsibility for the integrity and fairness of the financial statements, management maintains financial and management control systems and practices designed to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records are maintained.

The Board of Directors is responsible for ensuring management fulfils its responsibilities for financial reporting and internal control and exercises this responsibility through the Budget and Audit Committee of the Board, which is composed of Directors who are not employees of the Company. The Budget and Audit Committee meets regularly with management and the independent auditors to discuss auditing and financial matters, gain assurance that management is carrying out its responsibilities and to review the financial statements. The auditors have full and free access to the Budget and Audit Committee.

The Auditor General of Alberta, the Company's independent auditor, is responsible for auditing the transactions and financial statements of the Company and for issuing an opinion thereon.

R Bell

Chair

J Anderson

President and CEO

Auditor's Report

AUDITOR GENERAL
Alberta

To the Board of Directors of Alberta Opportunity Company

I have audited the balance sheet of Alberta Opportunity Company as at March 31, 1997 and the statements of revenue, expense and retained earnings and changes in financial position for the year then ended. These financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 1997 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Peter Valentine
FCA
Auditor General

Edmonton, Alberta
April 29, 1997

Balance Sheet

March 31, 1997 *(in thousands)*

	1997	1996
ASSETS		
Cash	$ 3,722	$ 1,876
Deferred charges and accounts receivable	399	166
Property held for sale (Note 3)	196	443
Loans receivable (Note 4)	75,003	75,588
Capital assets (Note 6)	709	552
	$ 80,029	$ 78,625
LIABILITIES AND RETAINED EARNINGS		
Accounts payable and accrued expenses	$ 1,931	$ 1,485
Notes payable (Notes 7 and 12)	42,493	26,725
Debentures payable (Notes 8 and 12)	18,742	38,608
Pension obligations (Note 9)	794	1,067
	63,960	67,885
Retained earnings	16,069	10,740
	$ 80,029	$ 78,625

Approved on behalf of the Board of Directors:

R Bell

Chair

J. Anderson

President and CEO

The accompanying notes are part of these financial statements.

Statement of Revenue, Expense and Retained Earnings

for the year ended March 31, 1997 *(in thousands)*

	1997		1996
	Budget (Note 15)	Actual	Actual
REVENUE			
Interest	$ 8,780	$ 7,815	$ 8,716
Application and processing fees	463	474	474
Gain on sale of investments	-	-	147
Grant from the Province of Alberta for the assistance of small business	7,427	7,427	9,051
	16,670	15,716	18,388
EXPENSE			
Operations (Note 10)	7,478	5,965	6,403
Interest	5,460	4,300	6,324
Charge for loan losses and losses on realization (Notes 3 and 5)	3,732	122	958
	16,670	10,387	13,685
Income before debt reduction grant	-	5,329	4,703
Debt reduction grant	-	-	27,000
NET INCOME FOR THE YEAR	$ -	5,329	31,703
Retained earnings (deficit), beginning of year		10,740	(20,963)
RETAINED EARNINGS, END OF YEAR		$ 16,069	$ 10,740

Statement of Changes in Financial Position

for the year ended March 31, 1997 *(in thousands)*

	1997		1996
	Budget (Note 15)	Actual	Actual
Cash provided by (used for):			
OPERATING ACTIVITIES			
Net income for the year	$ -	$ 5,329	$ 31,703
Recoveries of loans and investments written off	400	311	425
Items not involving cash:			
Charge for loan losses and losses on realization	3,732	122	958
Amortization of capital assets	256	131	119
Amortization of note discounts	-	69	1,474
Pension liability increase (decrease)	-	(273)	5
Net change in other assets and liabilities	(50)	(193)	(70)
	4,338	5,496	34,614
INVESTING ACTIVITIES			
Loans receivable disbursed	(30,000)	(25,518)	(26,086)
Loans receivable repaid	23,293	26,020	24,213
Proceeds from sale of investments	55	29	652
Proceeds from sale of property	665	288	208
Other	(950)	(333)	(701)
	(6,937)	486	(1,714)
FINANCING ACTIVITIES			
Proceeds of notes	22,500	19,135	27,000
Repayment of notes	(11,669)	(3,405)	(22,275)
Repayment of debentures	(9,335)	(19,866)	(39,790)
Repayment of subordinated notes	-	-	(6,292)
	1,496	(4,136)	(41,357)
Increase (decrease) in cash	$ (1,103)	1,846	(8,457)
Cash at beginning of year		1,876	10,333
Cash at end of year		$ 3,722	$ 1,876

Notes to the Financial Statements

March 31, 1997 *(tabular amounts in thousands of dollars)*

Note 1 Authority and purpose

Alberta Opportunity Company operates under the authority of the Alberta Opportunity Fund Act, Chapter A-34, Revised Statutes of Alberta 1980, as amended.

The purpose of the Company is to provide financial assistance and guidance for the development of Alberta business. Priority is given to smaller businesses in rural communities which, although viable, are unable to obtain financing from conventional institutions. Priority is also given to Alberta-owned businesses which will create jobs, are introducing improvements in productivity or technology, or have export or tourism potential.

The Province of Alberta maintains the financial viability of the Company by granting money appropriated for this purpose.

Note 2 Significant accounting policies

Deferred charges:

Deferred discounts arising on the issue of notes payable are amortized on a straight-line basis over the term to maturity and charged to interest expense.

Property held for sale:

Property held for sale is valued at the lower of cost and estimated net realizable value. Operating costs less rental revenues are added to the cost of the properties. Changes in the allowance for losses on realization are reflected in income.

Loans receivable:

Interest revenue is accrued on loans until such time as a loan is classified as impaired. Interest income is not recognized on impaired loans until such time as the charges for loan impairment have been reversed.

The allowance for loan losses represents Management's best estimate of probable losses on loans outstanding. The allowance has a specific and a general component. The specific allowance is established following a detailed review on a loan-by-loan basis wherein the discounted future cash flows and the fair value of the security underlying the loan are determined. The general allowance is based on historical experience to cover losses that have not been specifically identified. Changes in the allowance for loan losses are reflected in income.

Note 2 Significant accounting policies (continued)

Capital assets:

Capital assets are recorded at cost and amortized on a straight-line basis over the estimated useful lives of the assets as follows:

Furniture and office equipment	-	15%
Computer equipment	-	20%
Leasehold improvements	-	term of each lease

Pension costs:

Pension costs comprise: the cost of pension benefits earned by employees during the year; interest on the Company's share of the unfunded pension liability; the amortization of deferred adjustments over the expected average remaining service life of employees which relate to the long term; adjustments to the pension obligation recognized immediately if there is reasonable assurance that a gain or loss has been realized; and the effect of the change in the ratio used to allocate the plan's total unfunded liability to participating entities. The net expense or recovery is included as part of salaries and benefits.

Operating grant:

The grant from the Province of Alberta is recorded as revenue in the year for which it is approved.

Note 3 Property held for sale

	1997	1996
Cost	$ 849	$ 1,118
Less allowance for losses on realization		
Allowance, beginning of year	675	622
Charge for losses on realization	29	151
Reversal on sale	(51)	(98)
Allowance, end of year	653	675
	$ 196	$ 443

Note 4 Loans receivable

	1997	1996
Loans and accrued interest receivable	$ 72,528	$ 72,975
Impaired loans [a]	9,630	10,765
	82,158	83,740
Less allowance for loan losses (Note 5)		
Specific allowance [a]	3,916	4,810
General allowance	3,239	3,342
	7,155	8,152
	$ 75,003	$ 75,588

(a) Includes venture and seed investments with an estimated net realizable value and corresponding specific allowance of $188,000 ($217,000 in 1996).

Loans have an average term of between four and five years and are secured by general security agreements, land mortgages, debentures and guarantees. Loans generate a weighted average interest return of 9.7% (10.0% in 1996).

Note 5 Allowance for loan losses

	1997	1996
Allowance, beginning of year	$ 8,152	$ 9,174
Charge for loan losses	93	807
Write-offs	(1,401)	(2,254)
Recoveries of amounts previously written off	311	425
Allowance, end of year	$ 7,155	$ 8,152

Note 6 Capital assets

	Cost	Accumulated amortization	Net book value 1997	Net book value 1996
Equipment	$ 1,358	$ 703	$ 655	$ 477
Leasehold improvements	164	110	54	75
	$ 1,522	$ 813	$ 709	$ 552

Note 7 Notes payable

Notes are payable to the General Revenue Fund of the Province of Alberta.

Maturity dates	Interest rates	1997	1996
December 19, 1997	Discount note-3.66% yield	$ 3,000	$ -
March 3, 1998	Discount note-3.67% yield	3,100	-
February 15, 2001	5.65%	15,320	18,725
March 29, 2001	6.75%	8,000	8,000
March 27, 2002	5.44%	13,250	-
		42,670	26,725
Less unamortized discounts		177	-
		$ 42,493	$ 26,725

Scheduled principal repayments are as follows:

1998	$ 9,522
1999	3,806
2000	4,024
2001	11,891
2002	13,250
	$ 42,493

Note 8 Debentures payable

Debentures are payable to the Province of Alberta and held by the Alberta Heritage Savings Trust Fund.

	Maturity dates	Interest rates	1997	1996
Series E	September 30, 2000	7.71%	$ 15,370	$ 32,198
Series F	September 30, 1998	7.05%	3,372	6,410
			$ 18,742	$ 38,608

Scheduled principal repayments are as follows:

1998	$ 6,193
1999	5,461
2000	4,635
2001	2,453
	$ 18,742

Note 9 Pension obligations

The Company participates with other employers in the Public Service Pension Plan and the Management Employees Pension Plan. These plans provide pensions for the Company's employees based on years of service and earnings.

The Company had an unfunded pension liability for each plan as at March 31 which was estimated as follows:

	1997	1996
Public Service Pension Plan	$ 126	$ 261
Management Employees Pension Plan	668	806
	$ 794	$ 1,067

Note 9 Pension obligations (continued)

The total unfunded pension liability for each plan as at March 31, 1997 was determined by actuarial valuation as at December 31, 1995 for the Public Service Pension Plan and as at December 31, 1994 for the Management Employees Pension Plan, both extrapolated to March 31, 1997. (The 1996 comparatives were determined using the same valuations extrapolated forward to March 31, 1996.)

The actuarial valuations were determined using the projected benefit method prorated on service. Assumptions used in the valuations are based on each Pension Board's best estimate of future events. Each Plans' future experience will inevitably vary, perhaps significantly, from the assumptions. Any difference between the actuarial assumptions and future experience will emerge as gains or losses in future valuations. Gains and losses which relate to the long term are amortized over the expected average remaining service life of the employee group. Gains and losses for which there is reasonable assurance regarding their measurement and realization are recognized in income immediately.

The Public Sector Pension Plans Act specifies the basis to determine the amount of the total unfunded liability for each plan that will be funded by employers. The Company's portion of those employers' liabilities was based on the Company's percentage of the total pensionable payroll of all employers in each Plan.

Note 10 Operations

	1997	1996
Salaries and benefits (Note 11)	$ 3,598	$ 4,140
Severance	493	262
Occupancy	487	490
Legal and other fees	404	421
Communications	361	340
Amortization of capital assets	131	119
Board of Directors fees (Note 11)	83	83
Other	408	548
	$ 5,965	$ 6,403

Note 11 Board fees, salaries and benefits

	1997				1996	
	Number of individuals	Salary[a]	Benefits[b]	Total	Number of individuals	Total
Chairman of the Board	1	$ 16	$ -	$ 16	1	$ 13
Board Members	8	67	-	67	7	70
Total Board fees	9	$ 83	$ -	$ 83	8	$ 83
President and CEO[c]	1	$ 95	$ 15	$ 110	1	$ 117
Vice Presidents:						
Lending	1	88	15	103	1	102
Finance and Administration[d]	1	29	23	52	1	41
Assistant Vice President:						
Lending (average 1997 $98, 1996 $102)	1	84	14	98	1	127
Other managers (average 1997 $71, 1996 $76)	14	814	182	996	13	989
Other salaried staff:						
Professional staff (average 1997 $51, 1996 $52)	33	1,434	233	1,667	35	1,829
Clerical staff (average 1997 $27, 1996 $29)	25	553	121	674	26	745
Non-salaried staff:						
Clerical staff (average 1997 $34, 1996 $30)	6	180	22	202	6	181
	82	3,277	625	3,902	84	4,131
Increase (decrease) in pension liability	-	-	(273)	(273)	-	5
Increase (decrease) in vacation accrual	-	(31)	-	(31)	-	4
Total salaries and benefits	82	$ 3,246	$ 352	$ 3,598	84	$ 4,140

(a) Salary includes regular base pay, overtime and Board of Directors fees.

(b) Benefits includes the Company's share of all employee benefits and contributions or payments made on behalf of employees including pension, health care, dental coverage, group life insurance, accidental disability and dismemberment insurance, short-term disability plan and vacation payouts.

(c) Automobile provided, no amount included for benefits.

(d) The Vice President, Finance and Administration was on medical leave for a portion of the year.

Note 12 Financial instruments

Fair values:

Estimated fair value approximates amounts at which financial instruments could be exchanged in an arm's length transaction between willing parties who are under no compulsion to act. Many of the Company's financial instruments lack an available trading market, so fair values are based on estimates using present value techniques which are affected by assumptions concerning the timing of future cash flows and discount rates. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The Company has determined the fair value of its financial instruments as follows:

(a) Cash, deferred charges and accounts receivable, accounts payable and accrued expenses:

The carrying amount on the balance sheet approximates fair value because of the short-term nature of these instruments.

(b) Loans receivable:

Fair value was not established for the loan portfolio due to there being no established market for the developmental loans made by the Company. With no available market information and the diverse nature of the loan portfolio it was not deemed practicable to determine the fair value with sufficient reliability.

(c) Notes payable and debentures payable:

The estimated fair values of the Company's debt instruments are as follows:

	1997		1996	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Notes payable	$ 42,493	$ 41,906	$ 26,725	$ 26,102
Debentures payable	18,742	19,527	38,608	39,725
	$ 61,235	$ 61,433	$ 65,333	$ 65,827

Credit risk management:

Credit risk arises from the potential for borrowers to default on their contractual loan obligations. Credit exposure on the Company's loan portfolio is managed through appropriate due diligence and account administration. To minimize the credit risk associated with the loans the Company requires security agreements and personal guarantees on all loans.

Note 12 Financial instruments (continued)

Interest rate risk management:

The Company manages interest rate risk by borrowing a mix of short-term and long-term debt through the Province of Alberta General Revenue Fund at fixed interest rates and terms designed to match the average terms of the Company's loan portfolio. The debt of the Company is fully guaranteed by the Province of Alberta.

Cash is deposited in the Province of Alberta's Consolidated Cash Investment Trust Fund which is managed with the objective of providing a competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital. The portfolio is comprised of high-quality short-term and mid-term fixed income securities with a maximum term to maturity of five years.

Note 13 Contingent liabilities

Guarantees of bank loans:

The Company is contingently liable as a guarantor of bank operating lines of credit as follows:

	1997	1996
Guarantees	$ 2,133	$ 2,185
Export guarantees	2,540	2,000
	$ 4,673	$ 4,185

Legal actions:

There are six claims against the Company totalling approximately $3,324,000. The Company considers that a valid defense exists in each instance and no material loss is anticipated.

General:

In the event that the Company incurs a loss on the foregoing matters, the loss will be accounted for as a charge to income in the year that the loss is determined.

Note 14 Commitments

Unimplemented authorizations:

	1997	1996
Loans	$ 14,165	$ 6,633
Guarantees	$ 878	$ 920
Export guarantees	165	175
	$ 1,043	$ 1,095

Operating leases:

The Company has obligations under long-term, non-cancellable operating leases for premises. These leases generally have five year terms, include five year renewal options, and provide for payment of operating expenses and real estate taxes in excess of the amounts established at the commencement of the leases. The future minimum lease payments and estimated related costs for each of the next five years are as follows:

1998	$ 248
1999	132
2000	83
2001	29
2002	8
	$ 500

Note 15 Budget

The 1997 budget was approved by Management on January 10, 1996 and is presented for comparison with the 1997 actual figures.

Note 16 Comparative figures

The 1996 figures have been reclassified where necessary to conform to 1997 presentation.

Authorizations for Fiscal Year 1997

	Loans & Guarantees		Export Guarantees	
	#	$	#	$
Applications Received	560	76,297,100	12	3,010,000
Loans & Guarantees Authorized	345	42,471,600	9	2,700,000
Cancellations	48	6,920,000	1	75,000
Net Authorizations Made	297	35,551,600	8	2,625,000
Average Amount		119,700		328,100
Median Amount		57,500		157,500

Net Authorizations by Size

50,000 & under	137	3,146,500		
50,001 to 100,000	67	5,202,100	2	160,000
100,001 to 200,000	55	7,962,700	3	465,000
200,001 to 500,000	24	7,955,300	1	500,000
Over 500,000	14	11,285,000	2	1,500,000

Net Authorizations by Purpose

Establish New Business	42	2,492,200		
Expand Existing Business	218	28,324,900	8	2,625,000
Purchase Existing Business	37	4,734,500		

Net Authorizations by Region

Northern Alberta	79	8,728,900		
Central Alberta	51	5,047,100	1	500,000
Southern Alberta	62	5,448,300		
Edmonton	42	5,582,000	7	2,125,000
Calgary	63	10,745,300		

Loans and Guarantees

Authorizations to March 31

	1997		1996		1995		1994	
	#	$	#	$	#	$	#	$
Applications Received	572	79,307,100	730	77,772,500	867	80,740,500	1,053	125,835,800
Loans & Guarantees Authorized	354	45,171,600	399	37,196,700	477	36,658,600	425	33,338,000
Cancellations	49	6,995,000	59	7,113,200	70	7,021,900	73	8,100,900
Net Authorizations Made	305	38,176,600	340	30,083,500	407	29,636,700	352	25,237,100
Average Amount		125,200		88,500		72,800		71,700
Median Amount		61,600		39,700		37,400		38,900

Net Authorizations by Size

50,000 & under	137	3,146,500	215	3,784,300	273	4,893,000	227	3,829,600
50,001 to 100,000	69	5,362,100	52	3,900,300	49	3,805,500	65	4,863,400
100,001 to 200,000	58	8,427,700	36	5,581,600	47	7,230,700	35	5,311,900
200,001 to 500,000	25	8,455,300	25	8,142,500	33	9,865,500	18	6,123,200
Over 500,000	16	12,785,000	12	8,674,800	5	3,842,000	7	5,109,000

Net Authorizations by Purpose

Establish New Business	42	2,492,200	123	5,756,100	157	3,455,500	125	2,903,400
Expand Existing Business	226	30,949,900	170	18,184,400	200	21,622,200	166	15,924,500
Purchase Existing Business	37	4,734,500	47	6,143,000	50	4,559,000	61	6,409,200

Net Authorizations by Region

Northern Alberta	79	8,728,900	60	7,139,100	78	7,604,400	79	6,703,900
Central Alberta	52	5,547,100	68	6,370,000	75	5,327,800	61	4,921,400
Southern Alberta	62	5,448,300	60	5,537,200	56	4,938,400	56	4,675,000
Edmonton	49	7,707,000	73	3,607,200	75	4,215,100	76	5,589,900
Calgary	63	10,745,300	79	7,430,000	123	7,551,000	80	3,346,900

Total Net Authorizations by Region (to March 31, 1997)

Northern Alberta	1,956	212,282,800
Central Alberta	1,561	162,573,800
Southern Alberta	1,719	164,696,900
Edmonton	1,228	117,579,000
Calgary	1,449	131,498,300

Board of Directors

Ronald E. Bell
Chair
Edmonton, Alberta

James R. Anderson
President and CEO
Ponoka, Alberta

Thomas F. Bugg
Calgary, Alberta

Robert F. J. Carswell
Calgary, Alberta

Keith H. DeArmond
Claresholm, Alberta

Paul J. Evaskevich
Grande Prairie, Alberta

J. Harold Hanna
Calgary, Alberta
Retired June, 1996

Michael C. Procter
Peace River, Alberta

George W. Renner
Medicine Hat, Alberta

Wayne C. Wagner
Edmonton, Alberta
Appointed December, 1996

Brian G. Williams
Edmonton, Alberta
Retired April 30, 1997

Executive Officers

James R. Anderson
President and CEO

Donald E. Trenerry
Senior Vice President and
Regional Vice President, South

James D. Gill
Vice President,
Finance & Administration

John D. Kennedy
Regional Vice President, North

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